IN BRIEF

GLOBALIZATION IN TRANSITION: THE FUTURE OF TRADE AND VALUE CHAINS

Although trade tensions dominate the headlines, deeper changes in the nature of globalization have gone largely unnoticed. We analyze 23 industry value chains spanning 43 countries to understand how trade, production, and participation changed from 1995 to 2017. Grouping these value chains into six archetypes based on their trade intensity, input intensity, and country participation reveals diverging pathways. We see that globalization reached a turning point in the mid-2000s, although the changes were obscured by the Great Recession. Among our key findings:

- First, goods-producing value chains have become less trade-intensive. Output and trade both continue to grow in absolute terms, but a smaller share of the goods rolling off the world's assembly lines is now traded across borders. Between 2007 and 2017, exports declined from 28.1 to 22.5 percent of gross output in goods-producing value chains.
- Second, cross-border services are growing more than 60 percent faster than trade in goods, and they generate far more economic value than traditional trade statistics capture. We assess three uncounted aspects (the value added services contribute to exported goods, the intangibles companies send to foreign affiliates, and free digital services made available to global users). National statistics attribute 23 percent of all trade to services, but including these three channels would increase their share to more than half.
- Third, less than 20 percent of goods trade is based on labor-cost arbitrage, and in many value chains, that share has been declining over the last decade. The fourth and related shift is that global value chains are becoming more knowledge-intensive and reliant on high-skill labor. Across all value chains, investment in intangible assets (such as R&D, brands, and IP) has more than doubled as a share of revenue, from 5.5 to 13.1 percent, since 2000.
- Finally, goods-producing value chains (particularly automotive as well as computers and electronics) are becoming more regionally concentrated, especially within Asia and Europe. Companies are increasingly establishing production in proximity to demand.
- Three forces explain these changes in value chains. First, emerging markets' share of global consumption has risen by roughly 50 percent over the past decade. China and other developing countries are consuming more of what they produce and exporting a smaller share. Second, emerging economies are building more comprehensive domestic supply chains, reducing their reliance on imported intermediate inputs. Lower global trade intensity is a sign that these countries are reaching the next stage of economic development. Finally, global value chains are being reshaped by cross-border data flows and new technologies, including digital platforms, the Internet of Things, and automation and AI. In some scenarios, these technologies could further dampen goods trade while boosting trade in services over the next decade.
- Companies face more complex unknowns than ever before, making flexibility and resilience critical. With the costs and the risks of global operations shifting, companies need to decide where to compete along the value chain, consider new service offerings, and reassess their geographic footprint. Speed to market is becoming a key battleground, and many companies are localizing supply chains for better coordination. Rather than keeping suppliers at arm's length, companies can benefit from more collaborative relationships with those that are core to the business.
- The trends we identify may favor advanced economies, given their strengths in innovation and services as well as their highly skilled workforces. Developing countries with geographic proximity to large consumer markets may benefit as production moves closer to consumers; those with strengths in traded services also stand to gain. But the challenges are getting steeper for countries that missed out on the last wave of globalization. As automation reduces the importance of labor costs, the window is narrowing for low-income countries to use labor-intensive exports as a development strategy. Regional integration offers one possible solution, and digital technologies also hold possibilities for new development paths.

Even as policy makers focus on the trade opportunities of the future, unfinished business remains from the previous wave of globalization. Governments around the world will need to do more to support workers and local communities caught up in global industry shifts and technological change. By fully reckoning with the dislocations of the past, they may be able to make the next chapter of globalization more inclusive.

Globalization in transition

WE ANALYZED 23 VALUE CHAINS SPANNING 43 COUNTRIES AND ACCOUNTING FOR 96% OF GLOBAL TRADE. THEY REVEAL 5 STRUCTURAL SHIFTS:

1. Declining trade intensity in goods
2. Growing (and often unmeasured) trade in services
3. Less labor-cost arbitrage
4. More knowledge intensity
5. More intra-regional trade

KEY FORCES AFFECTING TRADE

- Consumption in emerging markets up by 50% since 2007
- Growing supply chains in China and other emerging markets
- Next-gen technologies changing logistics, production, and products

-5.6 p.p.
decline in trade intensity in goods since 2007

60%
faster growth in services trade than in goods trade since 2007

18%
goods trade based on labor-cost arbitrage

New priorities for global companies

- Follow shifts in value creation within your industry
- Consider service offerings
- Assess the full costs and risks of location decisions
- Build flexibility and resilience into operations
- Prioritize speed to market and proximity to customers
- Build closer and more digital supplier relationships

The challenge for countries

- Build strong service sectors
- Prepare for automation—especially in labor-intensive value chains
- Deepen regional trade ties
- Invest in R&D and skills
- Modernize customs operations and trade agreements
- Look for new opportunities as value chains evolve

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